Semi-Autonomy in Economic Policy-Making

The Case of Thailand

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Semi-autonomy in Economic Policy-making: The Case of Thailand

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Semi-autonomy in Economic Policy-making: The Case of Thailand

Johannes Dragsbaek Schmidt[1]

Introduction

As the end of the century draws close, Thailand is still a surprise. A member of ASEAN, having the second-largest market economy in Southeast Asia in terms of GDP, and an economic growth rate which in 1988 was among the highest in the world. Despite a political system marked by coups and rapid change Thailand has managed to succeed economically.

Prime Minister Chuan Leekpai's administration has put top priority on income distribution and decentralization of prosperity. The feature which distinguishes it from the former military-installed Prime Minister Anand Panyarachun's government policies is clear, because Anand's approach was straigthforward and simple - its goal was to reduce government's role and create rules to induce more participation and competition among the private sector. Thus, it seems that the 1992 democratic elected Chuan coalition is concerned with adjusting Anand's free-market approach towards a more social and distributional approach.

However, due to failure in past economic policies there are growing problems of educational shortcomings, environmental damage, poverty, uneven income distribution, a growing contradiction between Bangkok and the rest of Thailand, the unplanned, traffic jammed sprawl of Bangkok, and infrastructure in general. It appears to outside observers, these instances of economic policy failure are essentially based on a lack of coordination and cooperation between Ministries and Departments thus simply a matter of creating more comprehensive policy-formulation and planning. From another angle Warin Wonghanchao noted in 1988: "A cynic might ask if the function of national planning has arisen merely to justify asking for more loans."[2]

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1 Slithtly revised version of a paper presented at the 5th International Conference on Thai Studies, School of Oriental and African Studies (SOAS) at London University, July 1993. I am indebted to Michael Parnwell, Centre for South-East Asian Studies, Hull University for helpful comments.

2 Warin Wonghanchao, Thailand in the 21st Century: Economic Prospects, SEPFU-CUSRI, Bangkok, 1988, p.15.

The past five years have seen a vast amount of literature trying to explain the determining political factors behind major shifts in economic strategy, policy-making and industrial policy in Thailand.[3] Among the explanations there are claims that Thailand has entered a new era where the ability of business to influence and affect government policy has been enhanced. In particular during the 1980-88 Prem period, organized business associations became significant players in the conduct of government, thus suggesting that Fred Riggs model of a bureaucratic polity is no longer valid.[4]

In Riggs old model the rotation of power between sections of the bureaucracy - the civil servants and the military - is the most salient characteristic of Thai regimes.[5] Riggs saw the state as an arena where: "The failure of formal political institutions to achieve control over the bureaucracy has not meant the elimination of "politics" and the achievement of an "administrative state." Rather, it has meant that the arena of politics, the focus of rivalry, and the struggles for power, wealth or other public values have moved within the bureaucracy itself."[6] Regarding the regimeform his conclusion was categorically: "The Thai Political system then, may be classified on a scale measuring power distribution between democratic and totalitarian extremes."[7]

However, it is more than one decade ago, John Girling criticized this highly Euro-centric and functionalist description: "Riggs overstates the purely factional content of political rivalry.

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3 Likhit Dhiravegin, Demi Democracy, Times Academic Press, Singapore, 1992, and Anek Laothamatas, Business Associations and the New Political Economy of Thailand, Westview Press, Boulder, 1992.

4 Anek Laothamas, The Success of Structural Adjustment in Thailand: A Political Explanation of Economic Success, and Pasuk Pongchaipit, Technocrats, Businessmen, and Generals: Democracy and Economic Policy-making in Thailand. Both in Andrew J. MacIntyre and Kanishka Jayasuriya, The Dynamics of Economic Policy Reform in South-east Asia and the South-west Pacific, Oxford University Press, Singapore, 1992.

5 Fred W. Riggs, Thailand: The Modernization of a Bureaucratic Polity, East-West Center Press, Honolulu, 1966. For similar views also David A. Wilson, Politics in Thailand, Cornell University Press, Itchaca & London, 1962, and William J. Siffin, The Thai Bureaucracy: Institutional Change and Development, East-West Center Press, Honolulu, 1966.

6 Riggs, Thailand, ibid, pp.197.

7 Riggs, Thailand, ibid, pp.379-380. The characterization of the political system then was: "... a government having a secularized and functionally specialized bureaucracy, staffed by career officers but not subject to control by extrabureaucratic political institutions, would have the characteristics of a "bureaucratic polity". Such a polity was defined in terms of the domination of the official class as a ruling class, even though formal constitutional charters and ceremonial doctrines of government might give lip service to modern ideas of popular sovereignty or traditional concepts of royal and divine sovereignty." (op cit. pp.396)

National politics is simply a struggle for power and advancement of interests among factions and cliques, by overemphasizing factional struggles he neglects the social changes."[8]

This paper also questions the validity of the argument that the pressures creating change in economic strategy in Thailand intersects with a 'new' trend in political alignment - from military domination towards greater democracy with increased business influence. Pongchaipit suggests that, instead of being insulated from the pressure of the local business and external factors, the Thai government was vulnerable to all kinds of pressures from interested parties. "In particular, the dynamic business sector played a key role in pushing for reforms which favoured export growth."[9] Considering the dispute which arises from this statement it is important to note the following.

Thai policymakers have never been insulated from exogenous pressures. Especially external events, actors and institutions have played a determining role in major policy shifts in Thailand. The business sector has always had a degree of influence on sectoral policies in Thailand as evident in the works done by Kewin Hewison.[10] On the other hand, economic policy-making in Thailand has, for the most part, not been politicized. Perhaps this explains why Thailand has been able to achieve remarkable success in economic development compared with other developing countries.[11] In fact, growing evidence points to the fact that in terms of

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8 John L.S. Girling, The Bureaucratic Polity in Modernizing Societies, Institute of Southeast Asian Studies, Singapore, 1981, p.10. Also John L.S. Girling, Thailand. Society and Politics, Cornell University Press, Itchaca, 1981.

9 Pongchaipit, Technocrats, Businessmen and Generals, op cit. pp.12.

10 Hewison concluded that the shift to export orientation in the 1970s reflected, "(t)he increased influence of big capital within the Thai Political Economy". Kewin Hewison, National Interest and Economic Downturn: Thailand, in Richard Robison, Kewin Hewison & Richard Higgott (eds.), Southeast Asia in the 1980s. The Politics of Economic Crisis, Allen and Unwin, Sydney, 1987. He defines an early symbiotic relationship between big capital and the state the following way: "This is not to suggest that either the state or capital is dominant in theoretical terms, but rather that both have particular roles determined by the nature of class relations."(p.57). Kewin Hewison, Bankers and Bureaucrats. Capital and the Role of the State in Thailand, Monograph Series 34, Yale University Southeast Asia Studies, Yale Center for International and Area Studies, New Haven Connecticut, 1989, p.213. This symbiosis is manifest: "(i)ndeed there are significant linkages between state officials, both past and present, and the capitalist class; indeed there is considerable overlap between the two groups." (pp.206) See also Kewin Hewison, Industry Prior to Industrialization: Thailand, paper presented at the Conference on 'Industrializing Elites in Southeast Asia', Sukhothai, Thailand, 8-12 December 1986.

11 Chai-Anan Samudavanija, Economic Policy-making in a Liberal Technocratic Polity, in John W. Langford and K. Lorne Brownsey (eds.), Economic Policy-Making in the Asia-Pacific Region, The Institute of Research on Public Policy, Canada, 1990, p.182.

macroeconomic policy-making and regimeform it is appropriate to term the role of the state in Thailand as paternalistic and developmental with a high degree of capacity and autonomy.[12]

Background to the Debate on Economic Policy-making

The debate on state autonomy and capacity dates well before the 1990s and has been comprehensively discussed in the context of the NICs. There has been a marked dichotomy between economic theory, economic policies and the trend of events throughout the post-war period. This *real* or *alleged* conflict between domestic and external policy objectives and the degree of autonomy of national governments and states has been at the centre of the economic policy debate since its introduction by Alexander Hamilton in the United States and Friedrich List in Germany in the 19th century. Adian Foster Carter gives a precise definition of this line of thought: "For any late developer, it is a sine qua non to first insulate yourself against the powerful gales blowing from those already advanced; a task almost inevitably entailing pervasive state economic intervention, at least in the early stages."[13]

If we draw on the voluminous literature on development in Thailand as well as on the wider evidence of the debate about the causes of development, economic performance appears to be determined primarily by a country's domestic economic policy framework. Helen Hughes' has pointed out that neither differences in terms of natural resource endowment, country size, geography, location, cultural origins or degrees of democracy, autocracy, and political cohesion are sufficient explanations on the differentials in national growth rates.[14] What follows, is simply that the issue of autonomy versus dependency in domestic economic policy-making is the central research subject among various schools of thought. The observation that Thailand and other successful East Asian NICs and Would-be NICs have possessed a strong state entity

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12 Donald Crone, State, Social Elites, and Government Capacity in Southeast Asia, World Politics, Vol.40, No.2, 1988. Ng Chee Yuen, Sueo Sudo and Donald Crone, The Strategic Dimension of the "East Asian Developmental States", ASEAN Economic Bulletin, Vol.9, No.2, 1992 and Johannes Dragsbaek Schmidt, State Versus Democracy in Thailand: Winners and Losers in a Developmental Context, Copenhagen Papers in East and Southeast Asian Studies, Museum Tusculanum Press, Copenhagen University, Copenhagen, No.8 1993, pp.71-109.

13 Adian Foster Carter, Friedrich List Lives!, in Economy and Development, Sept.-Oct. 1985, p.34. See also Friedrich List, The National System of Political Economy, 1st. ed., Longmans, Green, London, 1841.

14 Helen Hughes, Towards Clarity and Common Sense, in Seeji Naya, Miguel Urrutia, Shelley Mark, and Alfredo Fuentes, Lessons in Development: A Comparative Study of Asia and Latin America, International Center for Economic Growth, San Francisco, 1991, pp.260-261.

is not restricted to proponents of statist analysis but is also being suggested in disguise by other schools of thought, sometimes with bizarre results.[15]

A number of rather different research approaches to economic policy-making has been advanced. The first is the literature in political science concerned with understanding policy-making and political institutions with particular reference to the analysis of comparative policy outcomes, the socalled new institutional economics, NIE. The second is the literature on political economy, domestic and international, which is largely centred around discussions on the neo-classical, liberal and state-centered models. However, despite the quantity and quality of work on specific aspects of the politics of economic policy-making, this literature remains disjointed and short on general analytic principles.[16]

Most scholars today agree that the impressive growth performance in East Asia urge a new focus on the political bases of development rather than underdevelopment.[17] This is also the case in recent literature in the NIE perspective on the NICs and on the political economy of stabilization which suggest that institutional arrangements, including regime type, the government's role in organizing interest groups, and the internal structure of the policy-making apparatus help to account for variations in policy choice, and thus for economic performance.[18] However, there are competing explanations on the degree of autonomy and state intervention and the unresolved nature of this competition requires an open research approach.[19]

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15 The conventional idiom used by the World Bank and IMF is 'governance' and for a more fuzzy term: 'neoclassical interventionism'. Consult Seeji Naya and Pearl Imada, <u>Development Strategies and Economic performance of the Dynamic Asian Economies: Some Comparisons With Latin America</u>, The Pacific Review, Vol.3, No.4, p.302.

16 For a comprehensive discussion in the NIE perspective, see Richard F. Doner, <u>Approaches to the Politics of economic Growth in Southeast Asia</u>, The Journal of Asian Studies, Vol.50, No.4, 1991. From a statist point of view see Robert Wade, <u>Governing the Market. Economic Theory and the Role of Government in East Asian Industrialization</u>, Princeton University Press, Princeton, New Jersey, 1990. And as an example of an integrated synthesis see James Cotton, <u>The Limits to Liberalization in Industrializing Asia: Three Views of the State</u>, Pacific Affairs, Vol.64, No.3, 1991.

17 Richard F. Doner, <u>Limits of State Strength. Towards an Institutionalist View of Economic Development</u>, World Politics, Vol.44, No.3, 1992, p.398.

18 Stephan Haggard and Robert Kaufman, <u>The Politics of Stabilization and Structural Adjustment</u>, in Jeffrey Sachs (ed.), <u>Developing Country Debt and Economic Performance I: The International Financial System</u>, University of Chicago Press, Chicago, 1989, and Stephan Haggard and Chung-In Moon, <u>Institutions and Economic Policy: Theory and a Korean Case Study</u>, World Politics, Vol.42, No.2, 1990, p.211.

19 Neo-classical economists have attributed growth in the East Asian NICs and in Southeast Asia to government success at "getting prices right", at letting free market-based price signals determine the most efficient allocation of resources for national economic growth. See for example, Bela Belassa,

The state is as central to the economics of development as to its politics. Polanyi's and Gerschenkron's argument is a case in point. Recent studies confirms their thesis that, the degree of state intervention required to promote development increases in proportion to relative backwardness and further that higher levels of state entrepreneurship may have a symbiotic rather than oppositional relation to the development of markets. Studies which focus on the evolution of state participation in extractive industries illustrate how dependence on external markets controlled by foreign corporations may stimulate increased state intervention. Economic rationality cannot be separated from political rationality in any latecomer.

In this paper it will be argued that an International Political Economy (IPE) perspective goes beyond the differences between traditional neoclassical theory and their latest application new institutional economics/new political economy (NIE/NPE) on the one hand and new statist contributions emphasizing the internal or external factors of growth in Thailand, on the other.[20] In the IPE perspective the external environment is seen as one of the determining factors of explanation in analyzing the phenomenal growth rates in Thailand and the subsequent associated dependency relationship on international institutions and actors. Economic policy-making and planning becomes a battle ground where institutions and actors from the external as well as the domestic context, state and society, interact with and vigorously try to influence the stages and processes of state policy-formulation and economic policy-making. This analysis also suggests some answers to the question why Thailand is delayed at various development parameters, at least compared with the NICs. Neo-mercantilism with its specific institutional characteristics seems to be the prefered state and regional response to a stagnating world economy and the only strategy able to catch up with the industrialized core states and regional trade blocs. Therefore, it is relevant to incorporate a neo-mercantilist perspective within the IPE framework in order to give a full understanding of the interplay between internal and external factors.

The main focus examines as a matter of exemplification the interlinkage between three sets of international institutions influence on macroeconomic policy-making in Thailand. To illuminate the argument, and as an attempt to apply the IPE and neo-mercantilist perspective

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The Newly Industrializing Countries of the World Economy, Pergamon, New York, 1981, and William E. James, Siji Naya, and Gerald M. Meyer, Asian Development: Economic Success and Policy Lessons, University of Wisconsin Press, Madison, 1989, and Marcus Noland, Pacific Basin Developing Countries: Prospects for the Future, Institute for International Economics, Washington D.C., 1990.

20 For an application of this framework on economic policy-making in the ASEAN-4 see, Johannes Dragsbaek Schmidt, In the Shadow of the Pacific Century. Comparative perspectives on externalities influence on economic policy-making in Southeast Asian Would-be NICs, Working Paper No.31, Development Research Series, Aalborg University, Aalborg, Denmark, 1993.

in an empirical grounded argument, the analysis highlights the perspective on industrial, trade and investment policies as examples on national responses to the changes in the international order. Though international pressures weigh heavily on developing countries, the ability of such countries to formulate coherent responses is contingent on institutional arrangements and capabilities, among them, the nature of economic decision-making structures and the policy instruments available to political elites. Not least the experience from Korea, Taiwan and Japan has shown the truth of this statement. The framework for this kind of analysis is schematized in figure 1 where the various actors and institutions interact in a dynamic context where policy-formulation, planning and implementation gives room to regulation and intervention.

To enhance the understanding of the politics of intervention and regulation Haggard suggests the following factors to be taken into consideration. 1) There is a need to focus more squarely on the political organization of business through peak associations, links to political parties, and informal political ties to the state itself, in short, to focus on the political capabilities of business. How can the domestic private sector influence policy-making. 2) To look at foreign investment and the politics of regulation in a larger political context. Such analysis, provides the broader political context within which the domestic private sector operates in supporting or resisting the entry of foreign firms. Three dimensions of the state as an institutional and legal structure bear on the ability of political elites to realize their interests.[21] The first is the degree of insulation from societal pressures, which in turn is a function of the institutional arrangements linking state and society. The second is cohesiveness of the decision-making structure itself. The third is instruments that are available to state elites in pursuing their political and substantive goals. Variations in these institutional characteristics influence policy choice and implementation.

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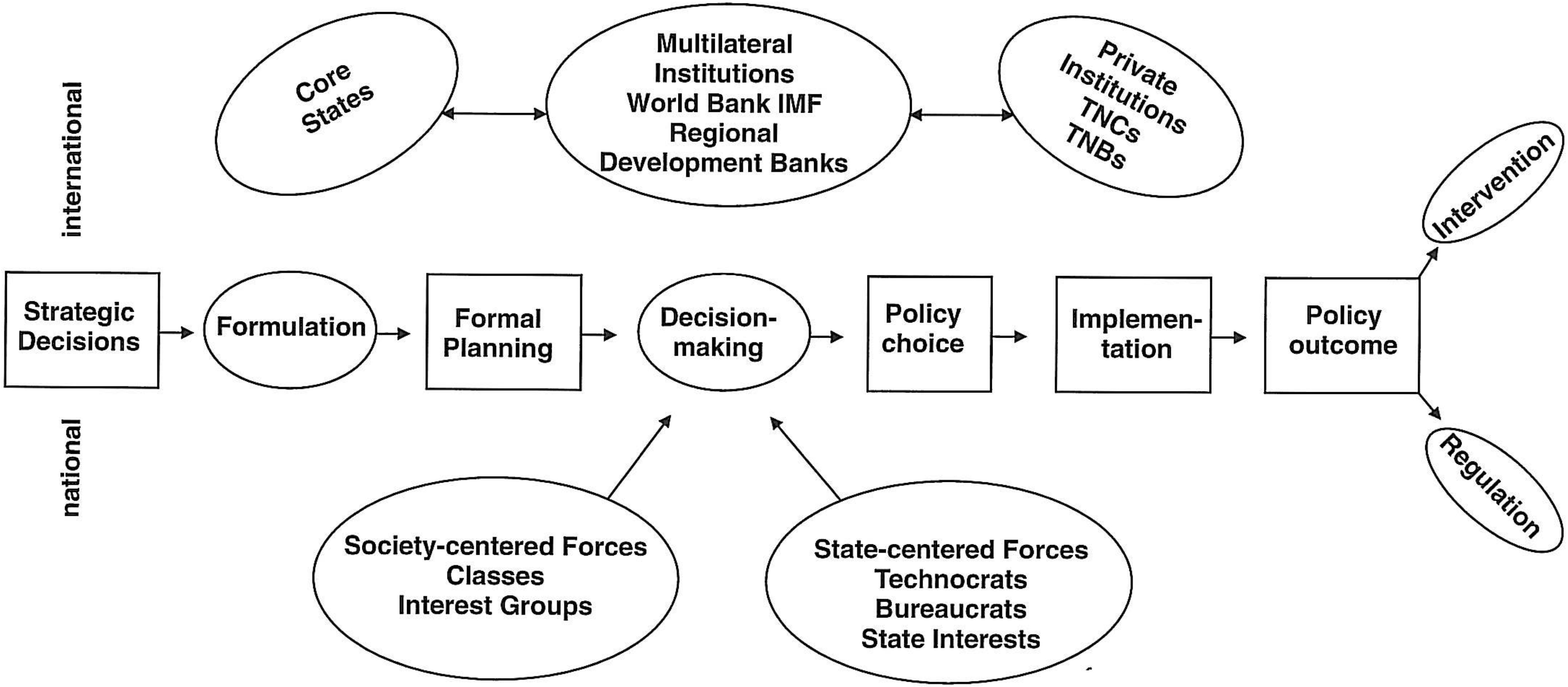
[21] Stephan Haggard, Pathways From the Periphery. The Politics of Growth in the Newly Industrializing Countries, Cornell University Press, Itchaca & London, 1990, p.43.

Figure 1: Internal and External Influences on Economic Policy-making



The International Political Economy and Neo-mercantilism[22]

It has been said that there is a *natural* tendency in the world economy towards protectionism: the instinct of businessmen and governments is *against*, not *for* free trade and more competition. All policies by various states and governments are meant to promote national prosperity and to safeguard national interests. Concomitantly, the essence of neo-mercantilism lies in the efforts to achieve this objective through: 1) Shielding the national economy against outside influences and, 2) aggressive and discriminatory policies against foreigners. Neo-mercantilism, as *all* forms of nationalism, tends to emphasise the real or apparent conflict of interests between one's own country and the rest of the world.

While the revival of neo-mercantilism in the capitalist world economy has been a *cause* and a *consequence* of a prolonged crisis it is also the single most important issue influencing the outlook for the 1990s in an increasingly polarized global division of labour. This development has been in apparent contrast with the progress and the unexpected success of world-wide economic and financial integration of the last 30 years. The crisis of the 1990s - as was that of the 1930s - is a crisis of the liberal economic order.

Neo-mercantilism is a complex phenomenon. It goes beyond traditional efforts to protect domestic production through tariffs or other restrictions; it includes dumping, export subsidies, certain types of industrial policies, as well as so-called voluntary export or import agreements, monetary nationalism, and various forms of 'beggar-my-neighbour' policies. But the basic question is concerned with the objectives and instruments of trade policy. Are latecomers to industrialization and thus liberalisation reaping to many benefits from free trade and the opening of new markets!

The central idea of neo-mercantilism is that economic activities are and should be subordinate to the goal of state building and the interests of the state. All nationalists ascribe to the primacy of the state, of national security, and of military power in the organization and functioning of the international system.

The neo-mercantilist assumption, is, that no economic system can exist without a political framework of some sort. Thus, the world economy and the international political system

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22 Neo-mercantilism is a creature with many connotations like economic nationalism, statism, protectionism, the German Historical School, and, recently, New Protectionism. See Robert Gilpin, The Political Economy of International Relations, Princeton University Press, Princeton, New Jersey, 1987, p.31.

cannot be usefully analyzed in separation from each other, but must be dealt with within one single theoretical framework. Neo-mercantilism focuses in particular on the nation-state system and the role of international political relations in the organization and management of the world economy. The eclectic and pragmatic approach of neo-mercantilism makes it the dynamic core in the current development of IPE, but also the vaguest of the (main) traditions of political economy.[23]

The Japanese and NIC Experience

In 1975 the Japanese economist Kojima explained some of the mainfeatures of the rise of Japan to core status as based on xenophobia and a specific pariah-relationship with U.S. as her former colony getting rather unusual preferences: 'Japan can be described as, at best, a reluctant host to foreign direct investment. This follows directly from the long tradition of Japan's suspicion of foreigners and wish to be independent of foreign control.'[24] Instead of foreign direct investment (FDI), Japan was successful in stimulating the massive inflow of foreign technology which in eighteen years between 1950 and 1968 represented about 10.000 contracts and payments in excess of $1.4 billion. Technology inflow permitted the modernisation of old and the creation of new industries under extremely favourable conditions.[25] In fact, until 1969, all FDI had been subject to case-by-case screening by the Japanese authorities.[26] The major contents of each contract were made available to the public every month. When the contracts were regarded as too restrictive, the government often intervened to modify the terms by means of administrative guidance. Many licensing agreements were accompanied by restrictive marketing provisions.

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23 See among others Barry R.J. Jones, Conflict and Control in the World Economy.Contemporary Economic Realism & Neo-Mercantilism,Humanities Press International, Inc. Atlantic Highlands, N.J., U.S. 1986, p.163. See also Björn Hettne, Neo-Mercantilism: What's in a Word?, in John Martinussen (ed.), New Institutional Economics and Development Theory, Occasional Paper no.6, International Development Studies Roskilde University Center, Denmark, 1993, p.211.

24 Lawrence B. Krause, Evolution of Foreign Direct Investment: The United States and Japan, in Jerome B. Cohen, (ed.), Pacific Partnership: United States-Japan Trade, Japan Society Inc., 1972, p.162, cf Kiyoshi Kojima, Japan and a New World Economic Order, Charles E. Tuttle Company, Tokyo, 1977, p.46n.

25 Kiyoshi Kojima, Japan, ibid, pp.36.

26 Sueo Sekiguchi, Japanese DFI and ASEAN Economies, in Sueo Sekiguchi (ed.), ASEAN-Japan Relations. Investment, ISEAS, Singapore, 1983, p.237.

Comparing with the experience of Thailand it is striking to note that she has been highly dependent on FDI and transfer of technology. But, there is no screening process in Thailand and, "this sort of information is not published in most of the ASEAN countries."[27]

In the words of Chalmers Johnson neo-mercantilism in the Japanese-type-capitalist developmental state has four fundamental structural features: 1) Stable rule by a political-bureaucratic elite that does not accede to political demands that would undermine economic growth or security; 2) cooperation between public and private sectors under the overall guidance of a pilot planning agency; 3) heavy and continuing investment in education for everyone, combined with policies to ensure the equitable distribution of national income; and 4) a government that understands the need to use and respect methods of intervention based on the price mechanism.[28]

Each of these fundamental features exist in the Japanese, Korean, and Taiwanese context, although with differing weight, patterns of historical evolution, and trade-offs arising from stressing one element more than others. This is not the case in the ASEAN-4, where the capacity and autonomy of the state has severe external constraints which limit its room of manoeuvre, but, it is possible to discern some similarities.[29]

1) The importance of political stability and insulation of planners and policy-makers from domestic forces interference in Thailand equals the Japanese experience.

2) The evidence shows that the role of a pilot planning agency, NESDB, in Thailand have the same function as MITI in Japan. However, the effects of the policy implementation are different.

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27 It still remains unclear how trade in technology is performing and how government institutions intervene when the case is judged unfair. See Sueo Sekiguchi, Japanese Direct Foreign Investment and ASEAN-Japan Relation: A Synthesis, ibid. pp.14n.24

28 Chalmers Johnson, MITI and the Japanese Miracle, Stanford University Press, California, 1982, Chalmers Johnson, The Nonsocialist NICs: East Asia, International Organization, Vol.40, No.2, Spring 1986, p.565, and Chalmers Johnson, Political Institutions and Economic Performance: A Comparative Analysis of the Government-Business Relationship in Japan, South Korea and Taiwan, in Frederic C. Deyo (ed.), The Political Economy of the New Asian Industrialism, Cornell University Press, Itchaca & London, 1987.

29 See also J.A.C. Mackie, Economic Growth in the ASEAN Region: The Political Underpinnings, in Helen Hughes, Achieving Industrialization in East Asia, Cambridge University Press, Cambridge, 1988. However Mackie dismiss the Japanese model as useless in a Southeast Asian context. "What is most striking about this analysis, however, is the fact that none of the four elements in Johnson's explanation could be said to be strongly evident in any of the ASEAN Four countries," p.290.

3) None of these special features have been successful replicated. The overall literacy rate is very high, and primary school enrolment was at a satisfactory rate of 97 percent in 1985, thanks to allocation to the primary level. With regard to the training of scientists and engineers needed for industrialization, Thailand produced only 4.8 persons per 10,000 population, second to the lowest figure for Asian countries.[30] Poverty has increased during the 1980s and especially income distribution has tended to become more disproportionate.[31] This is in part due to discrimination against agriculture, and the lagging expenditures in social sectors despite large fiscal surpluses in the 1990s.

4) On this particular point Thailand have tried more or less successful to intervene in the marketplace through the price mechanism and guidance at the macroeconomic level. Furthermore, there has been a continued role of government support for private-sector investment policy throughout various regimes.

Domestic political stability, macroeconomic efficiency and hospitality to FDI has made Thailand among the most internationally attractive to investors in recent years. The importance of FDI to economic growth in Thailand compared with its Southeast Asian neighbours is discerned from the pattern of FDI flows described by Tambunlertchai and Panachet.[32]

Like other developing economies Thailand has little influence over the international and regional forces that affect her competitiveness and attractiveness; but government policy can be crucial in shaping this competitiveness and attractiveness. It makes it relevant to discuss some of the common features from the NIC experience which Thailand has used in her own growth strategy to become a NIC.[33] The basic elements are sustained high economic growth,

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30 Suntaree Komin, Social Dimensions of Industrialization in Thailand, Regional Development Dialogue, Vol.12, No.1, 1991, p.122.

31 David Robinson, Yangho Byeon, and Ranjit Teja with Wanda Tseng, Thailand: Adjusting to Succes. Current Policy Issues, International Monetary Fund, Washington DC, 1991, p.6.

32 Somsak Tambunlertchai and Umphon Panachet, Foreign Direct Investment in ASEAN, in Soon Lee Ying (ed.), Foreign Direct Investment in ASEAN, Malaysian Economic Association, Kuala Lumpur, 1990, pp.59-91.

33 The OECD defined in 1979 the four following characteristics of NIC status as: 1) They are pursuing for an outward-looking policy (which means to promote growth through exports). 2) They are increasing their shares in industrial production and exports. 3) Domestically, they are increasing shares of manufacturing industry in total production, total exports and total employment. 4) They are rapidly reducing the gaps in per capita income (real GDP) vis-a-vis the industrialized countries. OECD, The Impact of the Newly Industrializing Countries, Paris, 1979.

rising average income, rapid industrialization (led mainly by exports), and an increased role in world trade. Thailand have already joined the established NICs in becoming a prime target of trade protectionism in Western markets with tough market-opening pressures from the United States and the multilateral institutions.

ASEAN or the recently suggested free trade area, AFTA, have not played any significant role in Thailand's growth strategy. On the contrary. It might even be claimed that the most appropriate response to the regionalization of the world economy with increasing trade blocs like the EU and NAFTA, seen from Southeast Asia, has been a strengthening of state capacities and capabilities. This is illustrated by the extremely high rates of investment in national physical capital. In this respect, the region's countries have been following the path trod earlier by Japan. As a general rule, countries are able to sustain a brisk expansion if, after their per capita income levels climbs above $1000, their fixed capital investment (the combined investment by the private and public sectors) remains in excess of 30 percent of GNP. Such a high level of investment carries with it the risk of faster inflation and a deteriorating balance of payments, but it enables a dynamic pattern of development. It is noteworthy, that in 1989 fixed capital investment as a percentage of GNP was 37.3 percent in Singapore, 34.7 percent in Indonesia, 31.0 percent in Thailand, 29.6 percent in Malaysia compared with 31.6 percent in South Korea. Looking at the rate of effective import protection Thailand is second only to Indonesia in East Asia. The estimated effective protection rate was 51 percent in Thailand, 59 percent in Indonesia compared with 20 percent in the Philippines and 23 percent in Malaysia.[34]

The important role of state policies is also clear from the large priority on growth related objectives, such as increasing productivity and competitiveness. The degree of state intervention in Thailand in orchestrating export-led growth is in particular evident in the specific relationship between state and civil society, especially the dominance of the technocrats over business.(See below) In sum, it would seem that the Thai state has accorded the highest priority to economic growth but at the expense of welfare and social justice.

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[34] Office of the Vice President, Sustaining Rapid Development, East Asia and the Pacific Regional Development Review, World Bank, Washington DC, 1993, p.16.

Formulation of Policies, Development Planning and Implementation. Indicative or a Show Case?

Development planning in Thailand is a recent phenomenon. The first development plan was formulated in 1961 covering a five-year period up to 1966. In the first 15 years of planning, problems were considered mainly from economic viewpoints and economic growth. Emphasis on support to a free enterprise system was the prime concern of the Thai planning agency till the adoption of the Fourth Plan (1976-1981), when social issues were given some attention.

Many observers have argued that plan policies reflect the priorities of powerful groups in Thai society. The effect of these sectional interests has been that various social issues such as increasing living standards of the poor farmers were neglected in the past.[35] There are other indicators showing that Thai development policy in general, and rural development policy in particular, actually contributed to rural impoverishment. Thailand's skewed curve of income shares illustrates this failure: 60 percent of the people get 25 percent of the GDP, 20 percent get 55 percent of the national income, 10 percent get 38 percent, 20 percent get 4.5 percent of GDP, and the Gini coefficient in 1988 was 0.479. Damrong Thandee notes that the participation, influence and mutual interests of the military-bureaucratic leaders, the landed aristocracy and the indigenous bourgeoisie have moved Thailand's political economic development towards a policy favouring private investment based on a technocratic model of development.[36]

The decision-making process is characterized by one responsible agency, NESDB, which is charged with formulation of policies and formal planning.(See diagram 1) Planning is done on a macro-level, while implementation is undertaken by the various sectoral government agencies at the micro or operational level. The NESDB is essentially an instrument to the Prime Minister who utilizes it to push ahead his programs and vice versa. But in the end it is the Cabinet which decides final policy. Hence, decision-making and policy planning processes are very different, but the role of NESDB is one of steering and monitoring those

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35 See M.J. Buckley, Planning and Budgetting in Thailand: The Plight of Rural Farmers, The South East Asian Economic Review, Vol.3, No.1, April 1982, and Habibullah Khan, Development Planning in ASEAN: Lessons of Experience, Economic Bulletin for Asia and the Pacific, Vol.XXXIX, No.2, UN ESCAP, Bangkok, 1988.

36 Damrong Thandee, Politics of Policy Implementation: A Case Study of Rural Development in Thailand, CUSRI, Bangkok, 1985, pp.14-15.

agencies responsible for implementing plans.[37](See diagram 2) However, in addition to NESDB, the Bureau of the Budget (BOB), and the Fiscal Policy Office (FPO) also plays a significant role. Above these agencies, located in the bureaucracy, the Council of Economic Ministers (CEM) in 1982 replaced the former Economic Policy Committee. As the top decision-making structure, CEM is a highly insulated policy body, and the technocrats response to a rapidly changing socio-economic and political situation, while the parliament as an institution does not have any strong influence upon national development planning or the decision-making process concerning plan objectives.

The same pattern as can be seen with influence from political parties through parliament seems to be the case with direct pressure from interest groups and political parties.[38] Businessmen may play some role in planning through the Joint Public and Private Sectors Consultative Committee (JPPCC). Especially those aspects which are concerned with export policy or tax structure. But it seems that the JPPCC represents an attempt by the state to maintain and exert its autonomy towards big business groups in society.[39] This aspect will be further touched upon below.

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37 Wirat Wattanasiritham, Pak Tongsom, Arkhom Termpittayapaisith and Satien Jirarangsumant, Thailand Socio-economic Development Planning, in Warin Wonghanchao and Yukio Ikemoto (eds.), Economic Development Policy in Thailand. A Historical Review, ASEDP No.1, Institute of Developing Economies, Tokyo, 1988, p.38. Also source for the two diagrams.

38 Suchart Prasith-rathsint (ed.), Thailand's National Development: Policy Issues and Challenges, Thai University Research Institute (TURA) and Canadian International Development Agency (CIDA), Bangkok, 1987, pp.34-35.

39 Wirat Wattanasiritham et al, Thailand. Socio-economic Development Planning, op cit, pp.199.

Diagram 1: Existing Organizational Structure in Thailand

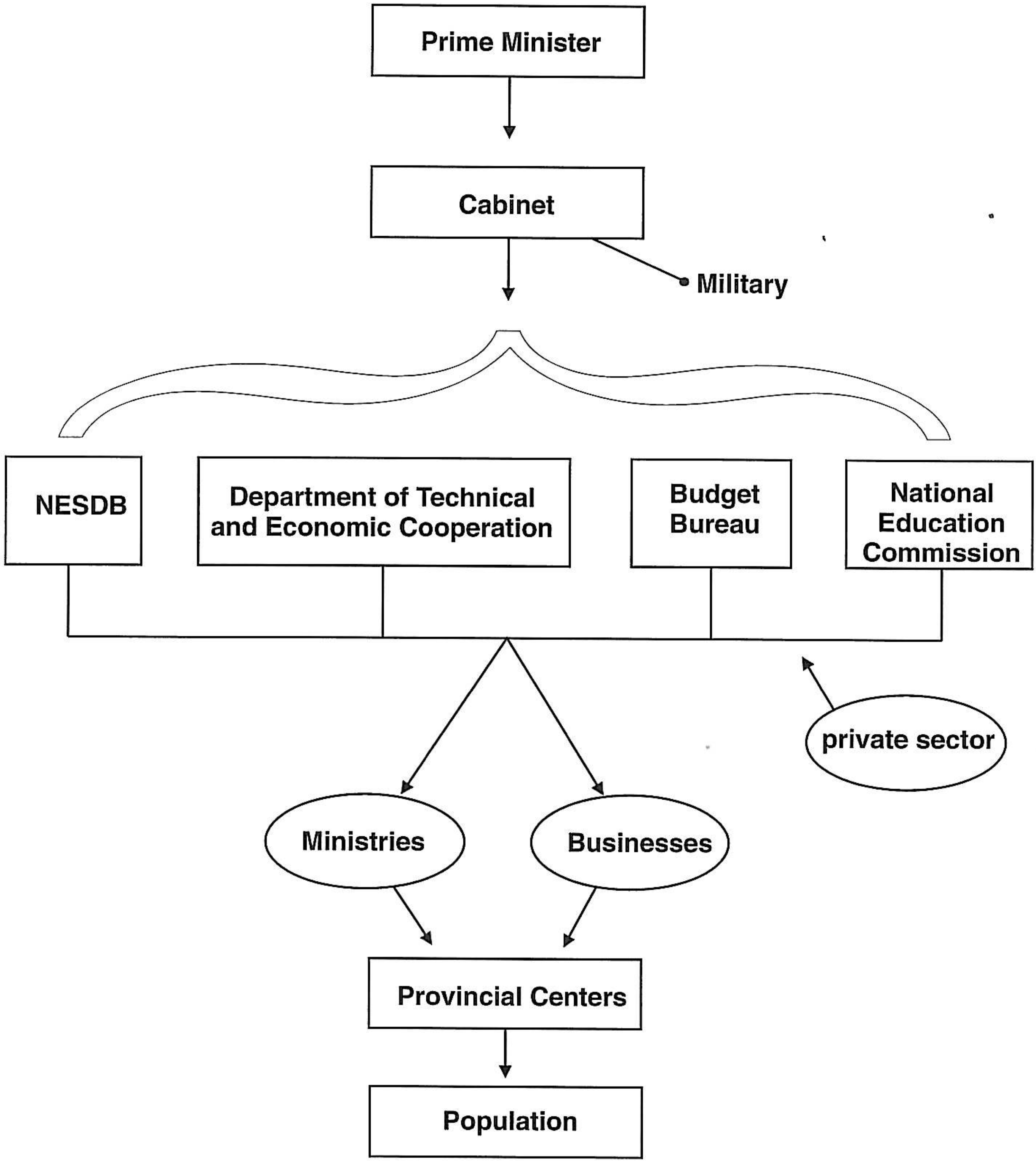
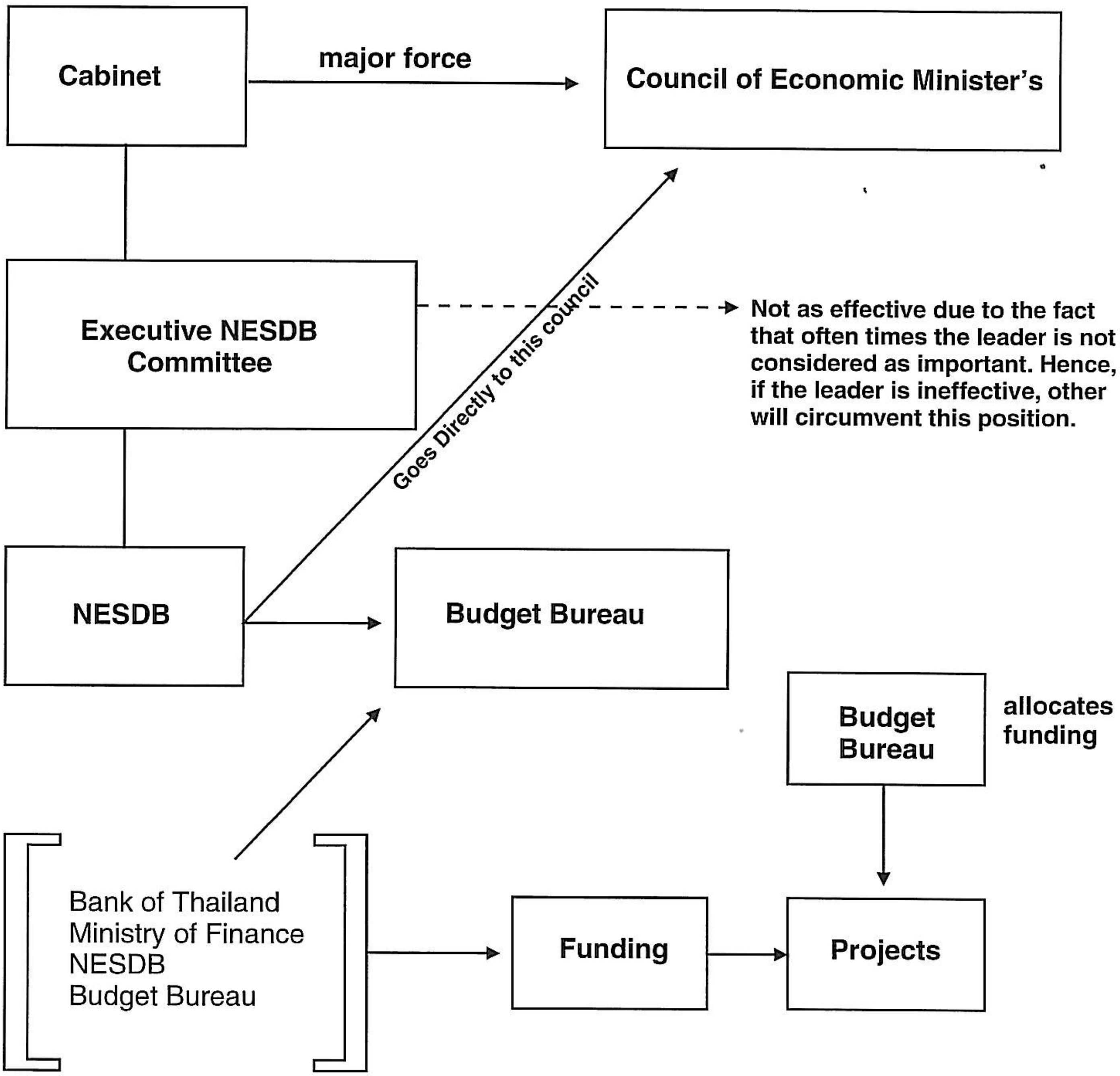


Diagram 2: Linkages to Planning and Budget Organization



To be sure the role of the three sets of international actors and institutions TNCs, TNBs, core states, and especially the World Bank, IMF, GATT and regional development organizations as ADB have had a tremendous influence on historical and current patterns of policy-formulation and planning in the Thai context. In the late 1960s and the 1970s the debate concerning economic policy-making centred on ISI and EOI strategies, with the Ministry of Industry supporting the former and the Board of Investment the latter. In the 1980s, however, much of the debate has revolved around the measures required to handle the economic crisis. And much of this has had to do with the IMF and World Bank recipes for the economy.[40] The World Bank and IMF have been closely associated with Thai development policy since the early 1950s and still they possess some pressure indirectly through specific policy recommendations and through locally funded think tanks such as Thailand Development Research Institute.[41] The World Bank has placed some $4.375 billion in Thailand since the early 1950s; $1.8 billion more is promised. Critics say that it has exacerbated deforestation, together with the misery it brings to ordinary villagers, not just through a few careless projects or neglect of the forest sector, but through an entire pattern of investment and economic policy undertaken in collaboration with the country's past military rulers who saw foreign capital as a way of shoring up [their] rule. The ban first began helping to open up the country to overseas investment and the world economy in the 1950s. Since then, it has encouraged the government to subsidize, rather than compete with big firms; to keep labour costs low; and to make alliances with members of the local elite who could benefit from industrialization, export promotion, and rural development. By providing loans for power stations, pipelines, and communications, it has forced ordinary people to underwrite the overhead costs of big business. World Bank projects and advice have succeeded in pulling Thailand into a world economic game in which it remains at a perpetual disadvantage in terms of trade, bargaining power, and ability to protect itself through subsidies and tariffs.[42]

The military's role in economic decision-making is complex and reflects its powerful role within the Thai state structure. According to Pongchaipit, the military is a major player in the

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40 For a good account on the heavy involvement of these two agencies on Thai policy formulation see, Hewison, National Interest..., op cit. pp.69-79. See also Chaipat Sahasakul, Lessons from the World Bank's Experience of Structural Adjustment Loans (SALs): A Case Study of Thailand, TDRI Research Monograph No.8, Bangkok, 1992.

41 Apichai Puntasen, Somboon Siriprachai and Chaiyuth Punyasavatsut, Political Economy of Eucalyptus: Business, Bureaucracy and the Thai Government, Journal of Contemporary Asia, Vol.22, No.2, 1992, pp. 187-206.

42 Larry Lohmann, Ecologist Magazine. Quoted from Robert Wuliger, A World Economy: Paradigms Lost and Found, Challenge, January-February, 1992, p.8.

political process, a dependent of the state, relying on allocations from the government budget, and it has a major corporate presence in the economy. Over the years, the bureaucrats in uniform has built up significant assets in land and commercial businesses. This means, that the military establishment has corporate interests affected by the government's economic policies.[43]

Depolitization of the planning and economic policy-making process in the domestic context occurred in the 1970s when the Communist Party of Thailand challenged the state and the existing system. According to Chai-Anan, changes resulting from social and economic modernization have not strengthened the growth of civic organizations because the transformation of economic power into political power has been delayed by the relative autonomy of the state in policy-making matters. The Thai bureaucracy has been able to transform itself during the process of economic growth by actively promoting economic development and coopting first the technocrats, and then the private sector. Since 1961, while military factions fought each other and took turns in "ruling" the country, it has been the technocrats who have actually steered the ship of state.[44] The bureaucracy has, so to speak, made it possible for the government to allow the financial-business community to participate in some areas of the decision-making process under terms of reference determined by the state at a time, in the mid-to-late 1970s, when the business sector expanded rapidly. This process of cooption has meant that the latter does not present a real challenge to the bureaucratic-activist, technocratic state but strengthens it because the state's decision-making capacity is enhanced by the private sector's participation as a source of information, expertise and, ultimately, legitimacy. Moreover, once the private sector is given the channel, the *need* for the financial-business community to seek alliances with political parties in order to influence policy decisions is lessened.[45]

Significantly, the Fifth Plan, drafted by civilian and military bureaucrats in close collaboration with one another, identified as the main objective of Thailand's development strategy, the achievement of national stability and the guidelines for the Sixth Plan period relates to the need for maintaining economic stability.

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43 Pasuk Pongchaipit, The Politics of Economic Policy Reform in Thailand, in David G. Timberman (ed.), The Politics of Economic Reform in Southeast Asia, Asian Institute of Management, Manila, 1992, p.3.

44 Chai-Anan, Economic Policy-making in a Liberal Technocratic Polity, op cit. pp.185 and pp.196.

45 Chai-Anan, Economic Policy-making in a Liberal Technocratic Polity, ibid pp.189.

In the first three plans, coordination with the private sector was never reacted on. The same laws from 50-100 years ago still apply today even though Thailand is in a different stage of growth altogether. Laws provide a convenient source of power and Thai officials do not want to change their status of power. According to a convincing case study presented by Chai-Anan the purpose of JPPCC is to be used as a mechanism created and utilized by technocrats to arrange relations between the state and the private sector. It is a vehicle or a non-political body used by the technocrats, not only, to establish a constructive alliance with industrialists, bankers and businessmen, but also to put pressure on the bureaucracy to initiate policy reforms. In this sense the technocrats are taking the role of reformers as well as guardians of the 'national interest.'[46]

The Sixth Plan, like its predecessors in essence consists of sets of policy statements, providing a very broad framework for the government agencies to follow. Being broad, lacking operational content, void of statutory enforcement, and unbinding of budget allocation, it provides much leeway to the line ministries to interpret and exploit the plan as a useful reference only when they find it beneficial to do so. The overall direction of the Sixth Plan is to make structural adjustment and to solve the problems by not creating them. According to the Plan, it aims to accomplish national development with efficiency, to attain the overall targets and to achieve an integrated system for government operations. This is to avoid duplications and lack of coordination within the public sector and for improving the efficiency of existing development instruments, the quality of government services and cooperation between the public and private sectors. Especially the latter, to improve mechanisms for coordinating cooperation between the public and private sectors will be emphasized.[47]

Two major shifts became manifest in the Fifth and Sixth National Economic and Social Development Plan(1982-1986), and (1987-1991), respectively. These major shifts were: a) The initiation of a large-scale industrial development plan - the Eastern Seaboard Development Program (ESDP)- following the discovery of natural gas in the Golf of Thailand; and b) the protection granted to heavy industries producing intermediate and capital goods.[48] Hence, the implementation of these two plans require a stronger intervention from the state than

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[46] Chai-Anan, Economic Policy-making in a Liberal Technocratic Polity, ibid. pp.193-194.

[47] The Government of Thailand, NESDB, The Sixth National Economic and Social Development Plan (1987-1991), National Economic and Social Development Board, Office of the Prime Minister, Bangkok, 1987, p.12.

[48] Suntaree Komin, Social Dimensions, op cit. pp.115.

previously and will undoubtedly strengthen regulative policies towards the entry of foreign investors and an increasing level of substitution to local business conglomerates.

Another recent example on the clash between ISI and EOI protagonists is the case of the auto industry. The state's strategies to rationalize the auto industry took a new turn in the early 1980s, following the World Bank's advice for an industrial restructuring program. The goals of the restructuring programme were to dismantle inefficient ISI industries and to embark upon an export-oriented industrialization. Since then, the state was sharply divided into opponents and proponents of ISI. The resulting fragmented state caused a delay in policy-making during the early to mid 1980s. Without a strong leadership in the ISI coalition, the NESDB, backed by the World Bank, took control over the direction of the auto industry and declared a total freeze in 1983 without strong opposition from local parts firms, mostly due to the economic recession in the early 1980s.

The ISI coalition fought back when Ob, a nationalist with strong suspicions towards the Japanese, took office in 1983. His nationalist policy was strongly opposed by foreign assemblers as well as by other export-oriented government officials and technocrats, including his own deputy. Nevertheless, Ob's increased localization program was adopted in 1984. However, its unprecedented political influence was short-lived because of Ob's departure and a newly emergent political coalition in 1985. Ob's resignation ushered in a new political coalition which was a compromise between the ISI and the free trade technocrats. This case parallels the clash between the technocrats such as Phisit Pakkasem, of CEM, who indicated that it was necessary to accept IMF discipline, while others such as the then Bangkok Bank president, Boonchu Rojanastien, argued that the government should not let the IMF control us.[49]

Trade, Industry and Investment Policies - Between Protectionism and De-regulation

The Thai government runs a conservatively monetary policy but an expansionary fiscal policy with large public sector deficits which, after a period of heavy external borrowings in the late 1970s and early 1980s, are now financed mainly by domestic borrowing. The savings rate was low and there was a large gap between savings and investment, resulting from an imperfectly

[49] Hewison, National Interest, op cit. pp.70.

developed capital market. However, as noted above due to financial policies the gap has been considerably narrowed. Although the formal banking system is closely held by a few Chinese family business conglomerates strong government guidance compensated for a distorted capital market and achieved a high monetization of the economy in 1988.

Government participation in the economic development of Thailand comes in two forms: direct participation via public ownership of enterprises and indirect participation via fiscal and trade policy. The growth of industrialization is partly due to government policy as well as to private-sector initiatives.

The support to industries in Thailand has been implemented through regulation, direct intervention and substitution. Industries has been, "(e)xtempted from import tariffs, sales taxes, corporate income tax or reduction in the prices of water and electricity, which means a loss in government revenue ... (but) ... among the more important objectives that industrialization is expected to bring forth: employment generation, regionalization and export promotion, only the last objective has been met. The biggest failure of the Thai manufacturing sector is in its inability to absorb labour."[50] Thailand's trade policies[51] have been adjusted generally in response to developments in the balance-of-payments and in accordance with various government financing requirements but not formulated in the context of a clear cut or enduring economic strategy. During the Third Plan period, from 1972-83, the import substitution policies that were put in place in plans in the previous period were joined by new export promotion policies. A number of conflicting policies in the beginning of the 1970s created a deteriorating balance of payments. These policies included the imposition of controls on interest rates and selected prices and later combined with an expansion in government expenditure financed by accelerated foreign borrowing and domestic credit creation; increased protection of import competing industries, yet the causal introduction of export incentives. By 1983, the fiscal and trade balances had worsened sharply, external debt had begun to build up, and growth had slowed. The government's subsequent reaction was to tighten monetary policy and to raise import restriction.

The fourth period, from 1983 to the present, has been marked by the beginning of a commitment on the part of the state to actively promote exports. The decision of the policy-

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50 Mingsarn Santikarn Kaosa-ard & Kitty Israngkura, Industrial Policies in Thailand, in Wonghanchao and Ikemoto, Economic Development Policy, op cit. pp.157.

51 Parts of the following paragraphs relies on OECD, Secretary-General's Office, Integration of Developing Countries Into the International Trading System, OECD, Paris, 1992, pp.131-132.

makers taken in the early 1980s to encourage an outward orientation to economic growth was motivated by economic difficulties stemming from the external shocks, earlier policy mistakes, and the diminishing potential of Thailand's previously reliable engine of growth, agriculture. As earlier noted, the policy elite's strengthened interest in promoting exports was also underpinned by the possibility of creating employment for an expanding labour force.

Despite heavy pressure from the World Bank, IMF, GATT, and the export-oriented technocrats, bureaucrats implemented tariff reforms that lowered marginally the overall nominal average tariff but reduced the dispersion of effective protection for the manufacturing sector. At the same time, however, in order to raise revenues, policy-makers introduced a general import duty surcharge that largely offset the effects of the tariff reform. In Late 1984, in a renewed effort to correct domestic and external imbalances, credit policy was tightened significantly, tax reforms were introduced, and the long-standing practice of fixing the baht to the U.S. dollar was abandoned. Instead, the baht was substantially devalued and pegged to a basket of currencies of Thailand's major trading partners. This devaluation was a major factor behind the improvement of international competitiveness in Thai industries which further increased in 1987 due mainly to the value appreciation of Yen, Korean Won, and Taiwan Yeun against the U.S. Dollar.

Investment incentives were also extended to encourage investment in export-oriented and labour-intensive industries. However these incentives were generally ineffective. Both the system of export financing and the network of investment incentives were highly concentrated on particular industries. In addition, export incentives were directed at firms exporting the near totality of their production, leaving practically no incentives for industries producing primarily for the domestic market to shift some of their production to exports, retarding both employment growth and the development of inter-industry linkages. Despite the intention to deregulation on the part of the technocrats in NESDB and their counterparts in the multilateral institutions, the bureaucrats in the line-ministries and domestic business succeeded in preserving the high protection rate of domestic industries.

By 1986, the structure of protection was essentially the same as it had been before the attempted reforms except that the revenue-generating power of the tariff structure had been strengthened considerably. The combination of external influences, a more flexible exchange rate policy, the absence of restrictions on foreign capital, the new (albeit targeted) export-oriented investment incentives, and the overall cautious attitude of the government seem to have overridden, during favourable times, the bias against exports in the tariff structure, which, in less propitious circumstances, had been the principal binding constraint.[52]

Impact of State Intervention and Regulation in Thailand. Dreams of NIC Status

Taking the welfare dimension as a parameter for a successful investment strategy several studies suggest that the effect has been limited. According to the investigation by Wonghanchao and Pongpissanupichit from 1987, "...(t)he most important ...that a large percentage of the promoted manufacturing firms in the sample, both foreign and local, are undesirable from the standpoint of welfare, despite the inclusion of the positive indirect social income effects. *This is to be expected as many of them are in import-competing industries, which usually exist and survive only with heavy protection from the government.*"[53] Furthermore, as earlier mentioned, "Thailand still lacks an effective system of screening, negotiating, registering and monitoring U.S. or any FDI activities."[54]

Another problem with the EOI strategy is well described by Kaosa-ard and Israngkura: "while the possibility of Thailand approaching NIC status has been hailed by foreign observers as well as some Thai technocrats and bureaucrats, it is important to remember that such a status is not the primary objective of development. Nor does it reflect the quality of development. Thailand cannot be considered as successfully moving ahead if the bulk of its population remains in the relatively low-income, stagnant agricultural sector."[55] What is needed, not as a replication of the Japan and NIC experience, but as a matter of upgrading the status of the rural population is emphasis in economic policies on a non-urban-alternative.[56] The problem with the current policies is a need for stronger support by the state to enhance welfare in the

52 OECD, Integration of Developing Countries, ibid pp.132-133.

53 Warin Wonghanchao and Jeerasak Pongpissanupichit, Contribution of Direct U.S. Investment to the Thai Economy, in Asia Pacific Economies: Promisses and Challenges. Research in International Business and Management, Vol.6, Part B, JAI Press Inc., 1987, pp. 245-246.(emphasis mine, J.D.)

54 Wonghanchao and Pongpissanupichit, Contributions of Direct U.S, ibid, pp.250.

55 Mingsarn Santikarn Kaosa-ard & Kitty Israngkura, Industrial Policies in Thailand, in Wonghanchao and Ikemoto, Economic Development Policy, op cit. pp.193.

56 The daily media covers other suggestions and a broadbased debate on this issue. See for instance Do We Want' to be a NIC !, The Nation, 30 August, 1988, and Thanong Khanthong, Buddhistic economy: Happiness for everyone, The Nation, 5 September, 1988.

rural areas: "a revolution in private farming and marketing is needed, 'free trade' and market incentives are incapable of producing this by themselves. Private enterprise needs government support. So extended government intervention and expenditures on a massive scale in agriculture is essential." The basic question is: "will the Thai government give the priority for finding these funds? And probably more important, will it be courageous enough to do this in opposition to the World Bank's orthodox dogma of "privatizing" at all costs?"[57] The essential problem is the lack of a land-reform which was crucial in the success of Japan, Taiwan and South Korea. "To permit and facilitate these changes in agricultural production, changes in the social structure and tenure patterns must occur. Most of Thailand's farmers do not own their land and therefore, do not qualify for the bank loans necessary to stimulate these developments."[58] About 40 percent of rural labour are still waiting on a solution to property rights to the land they claim.[59] A related problem concerns the large number of rural poor because, "when world commodities experience price slumps as was the case in 1986, the proportion of people under poverty line increased to 29.5 percent. With subsequent improvements in world commodity prices in 1989, this proportion again dropped to 23.7 percent, clearly confirming that world commodity prices are crucial in determining rural poverty conditions in Thailand."[60] Another paradox inherent in the EOI strategy is the fact that: "(f)oreign investment has less contributed to employment expansion than local investment, because their firms are more capital intensive than the local ones," and "...[the] industrial investment will strengthen rather than lessen unemployment problems in Thailand in the next decade."[61]

In short, the costs of EOI and the efforts of attracting FDI are seriously exceeding the benefits. Thailand's competitive edge is determined by stable supplies of nonunionized labor, low environmental regulation, 'flexible' land-use regulations and low land prices, and the relative absence of well-organized middle-class social movements demanding improvements in and

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57 Warin Wonghanchao, Thailand in the 21st Century, op cit. pp.7.

58 Warin Wonghanchao, Thailand in the 21st Century, ibid, pp.7. For a good case-study pointing to the failures of plan implementation of rural development see Chairat Charoensin-o-larn, Understanding Postwar Reformism in Thailand: A Reinterpretation of Rural Development, Duang Kamol, Bangkok, 1988.

59 DanEduc Consulting for DANIDA, Situations- og Perspektiv Analyse Thailand (Situation and Perspective Analysis), DANIDA, Ministry of Foreign Affairs, Copenhagen,1990, p.10.

60 NESDB, The Seventh National and Economic Development Plan (1992-1996), NESDB Office of the Prime Minister Bangkok, Thailand, 1992. p.99.

61 Wittaya Chiengkul, et al. Report on Employment Problems in Thailand, CUSRI, Bangkok, 1984, pp.113-114.

greater regulation of social, economic and environmental problems. The outcome of this process is recognized by NESDB planners. Growing disparities in income and prosperity widened sharply but no detailed policy instruments or operational framework are provided in the Seventh Plan, suggesting that nothing has changed.[62]

The 1974-1976 democratic experiment was easily overturned partly because its efforts to help farmers hurt Bangkok. This experience together with the infamous Black May incident in 1992 undoubtedly forced the Chuan administration to rely on the bureaucracy when it came to implementing decentralization. Gubernatorial elections, more power to local administrative bodies and the making of the *tambol* (commune) councils to juristic entities ended up with giving the Interior Ministry more even more power than it had before. Several mass protests by villagers in 1993 over land rights and dam construction marked the inefficiency of implementation and the vested interests of the alliance between the bureaucracy and capital. Democratization and decentralization of decision-making power appears to be almost impossible in a country where disparities between the urban and rural have widened during the last three decades. Average incomes in the Isan province of Northeast Thailand were 2.961 baht/household in 1988 compared with an average household income for Bangkokians of 7.793 baht.[63]

According to the East Asian experience: "(t)he periods of greatest economic growth in Japan coincide with periods of growing authoritarianism, not with periods of democracy, as Western theory suggests."[64] The pre-conditions for this specific authoritarian regimeform is the differentiation between reigning and ruling: "(r)eigning is a very specific activity: it involves creating genuine political stability, correcting excesses committed by the bureaucracy, promoting entrepreneurship, and avoiding the usual consequences of state intervention in economic affairs - namely, bureaucratism, corruption, and a misallocation of resources."[65] But,

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62 NESDB, The Seventh, op cit. pp.99-163.

63 For other indicators of the extreme primacy of Bangkok versus the rest of Thailand, the so-called 'diseconomies of scale' see Jonathan Rigg and Philip Scott, The Rise of the Naga. The Changing Geography of South-East Asia 1965-90, in Graham P. Chapman and Kathleen M. Baker (eds.), The Changing Geography of Asia Routledge, London, 1992. p.106.

64 Chalmers Johnson, The Democratization of South Korea. What Role Does Economic Development Play?, Museum Tusculanum Press, Copenhagen University, Copenhagen, No. 4, 1989, p.66.

65 Chalmers Johnson, The Nonsocialist NICs, op cit.pp.563.

it is precisely these problems which characterize Thai policy-making and they are inherent in the symbiotic relationship between business and line-ministries.[66]

Despite a history of instability in the regimeform, Thailand ranks high compared with her Southeast Asian neighbours in terms of growth and macroeconomic parameters. Thai policy-makers maintains a significant level of stable conservative performance in macro-management of the economy and continue to implement cautious fiscal and monetary policies and a flexible exchange rate policy. The Seventh Five-Year Development Plan (1992-1996) differ from earlier plans in its main target, which is improvement of income distribution, whereas formerly the objective was solely based on economic growth and stability. However, the global retreat of the welfare state towards what could be called the competitive state means a reduction of public spending and public sector borrowing, for they drive up interest rates and displace investment. The current polity and ideology in the contemporary world economy is mercantilist, not minimalist or liberal. Yet it is not clear that Thailand is well-placed to move on to the next step of economic development. A recent World Bank study of six East Asian countries concluded that Thailand was the only one that had failed to make significant inroads into poverty and social inequity. Through the 1970s, 1980s and the beginning of the 1990s, some 9 million were absolute poor. As the bank noted, "in 1990 Thailand's incidence [of poverty] was as high as Indonesia's, even though its average GNP per capita was 2.5 times higher."[67]

In this setting the basic developmental objective is the military establishment's assertion of a virtual entitlement to control the executive. Thailand's present regimeform has been labelled various ways: semi-democratic, bureaucratic authoritarianism with limited pluralism, mandarin oriental capitalism, and a bourgeois praetorian political system. However, as noted above it does not make any sense, because the regimeform is able to change from one day to the other, but the bureaucracy remains intact. Thus, the paternalistic developmental state is a more accurate term. It is difficult to find any evidence indicating a change in the attitude of the private sector towards state authoritarianism. Direct and indirect repression continues to rule the relationship between capital and its intermediary, the state, and on the other side labour

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66 See also Andrew Turton, Local Powers and Rural Differentiation, in Gillian Hart, Andrew Turton & Benjamin White, Agrarian Transformation. Local Processes and the State in Southeast Asia, University of California Press, Berkeley and Los Angeles, 1989, pp. 72-74. He is in line with the arguments of Girling and Hewison, but adds, the autonomy of the military as an important dimension which enjoy:- "...a momentum of its own somewhat hybrid, parasitic, 'secondary complex of predatory interests'." Ibid pp.73.

67 Office of the President, Sustaining, op cit. pp.8.

and peasant organizations. The chance for Thailand turning into a NIC seems premature since about 70 percent of the total labour force remains dependent on agriculture and the stagnation in rural poverty.

Concluding this essay, it is apparent, that Thailand has followed a neo-mercantilist policy approach to cope with its integration into the world economy. Despite pressure from the multilateral peak organizations - the World Bank, IMF and the technocrats in the Ministry of Finance, NESDB and the Central Bank - the alliance between bureaucrats from the line-ministries and local business has had some success avoiding the worst trappings of readjustment. Thus protectionism, nominal tariffs and nontariff barriers continue to be a salient feature of Thai industry and trade policies.

What is new about the "new" theory of business as the vanguard of democracy is difficult to comprehend. The comparative advantage of Thailand's business sector has been and continues to be the exclusion of labour, whether rural or urban, from participation and social benefits. This is further confirmed by the indicative and related approach to planning which brings considerable doubt to whether any welfare improving implementation will take place at all.

Technocrats and state managers have a firm grip over macroeconomic policy-making and the process of formulating and implementing plans. When it comes to sectoral policies, the interest of business does not indicate a renewed focus on democracy, participation or a deliberate state guided distribution of welfare. The major influence of business is reduced to getting state subsidies in various sectors and protection based on low labour costs and no trade union activism. On the other hand, external events and actors, still, play a considerable role, direct and indirect, through various instruments and pressures on policy-making. At the moment the multilateral advice is to introduce income distribution and the reduction of poverty in planning. But it remains to be seen if the ideology of 'trickle-down' is still part of that advice or a genuine policy receipt and a framework for implementation will arise.

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